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Financial reports and audited financial statements, and reports of the Board of Auditors

Concise summary of the principal findings and conclusions contained in the reports of the Board of Auditors for the biennium 2010-2011

Note by the Secretary-General

The Secretary-General has the honour to transmit to the members of the General Assembly, pursuant to resolution 47/211, a concise summary of the principal findings and conclusions contained in the reports of the Board of Auditors on its audit of accounts for the financial period ended 31 December 2011.

* A/67/150.

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Letters of transmittal

30 June 2012

I have the honour to transmit to you a concise summary of the principal findings and conclusions contained in the reports of the Board of Auditors for the biennium 2010-2011.

(*Signed*) **Liu** Jiayi
Auditor-General of China
Chair of the Board of Auditors

The President of the General Assembly
of the United Nations
New York

30 June 2012

I have the honour to transmit to you the concise summary of principal findings, conclusions and recommendations contained in the reports prepared by the Board of Auditors for the General Assembly at its sixty-seventh session.

(*Signed*) **Liu** Jiayi
Auditor-General of China
Chair of the Board of Auditors

The Secretary-General of the United Nations
New York

Abbreviations

IMIS	Integrated Management Information System
IPSAS	International Public Sector Accounting Standards
ITC	International Trade Centre
OHCHR	Office of the United Nations High Commissioner for Human Rights
UNAMID	African Union-United Nations Hybrid Operation in Darfur
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFPA	United Nations Population Fund
UN-Habitat	United Nations Human Settlements Programme
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNITAR	United Nations Institute for Training and Research
UNJSPF	United Nations Joint Staff Pension Fund
UNMIS	United Nations Mission in the Sudan
UNODC	United Nations Office on Drugs and Crime
UNOPS	United Nations Office for Project Services
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
UNU	United Nations University
UN-Women	United Nations Entity for Gender Equality and the Empowerment of Women

Concise summary of the principal findings and conclusions contained in the reports of the Board of Auditors for the biennium 2010-2011*

Summary

The General Assembly, in its resolution 47/211, invited the Board of Auditors to report in a consolidated fashion on major deficiencies in programme and financial management and cases of inappropriate or fraudulent use of resources together with the measures taken by United Nations organizations in that regard. The findings and conclusions included in the present report relate to the common themes and major deficiencies identified in the Board's reports addressed to the General Assembly on 17 organizations plus the United Nations peacekeeping operations. The contents of the Board's reports to the Security Council and other governing bodies are not summarized herein. The detailed findings and recommendations related to individual entities are contained in their separate audit reports. The list of the organizations audited by the Board appears in annex I.

* To better support the General Assembly in its governance role, the Board includes peacekeeping operations in the present report to provide a more comprehensive picture of major deficiencies identified in its reports. The peacekeeping operations have an annual financial cycle ending 30 June 2011, and therefore the figures related to those operations are as at that date unless otherwise indicated. For the Office of the United Nations High Commissioner for Refugees, the reporting period is 1 January to 31 December 2011.

I. Overall matters for the United Nations

A. Audit opinions

1. The Board of Auditors has audited the financial statements and reviewed the operations of 17 organizations plus the United Nations peacekeeping operations (see annex I), in accordance with General Assembly resolution 74 (I) of 7 December 1946. The Board has issued short-form reports reflecting its audit opinions together with long-form reports, which contain detailed findings and recommendations arising from each audit. (For a description of the types of audit opinions, see annex II.) The long-form reports provided the basis for the present summary report and the conclusions set out herein.

2. In its 18 audit reports (see table 1) (2008-2009: 16 reports), the Board issued:

(a) Unmodified audit opinions for 16 entities (previous period: 9 entities);

(b) Modified audit reports with one or more emphasis of matter or other matter paragraphs for 2 entities (previous period: 8 entities).

Table 1
Types of audit opinions issued by the Board for the current reporting period compared with the previous period

	2010-2011			*2008-2009*		
Organization	*Unmodified opinion*	*Qualified opinion*	*Emphasis of matter or other matter*	*Unmodified opinion*	*Qualified opinion*	*Emphasis of matter or other matter*
United Nations	X			X		
Peacekeeping operations[a]	X					X
ITC	X			X		
UNU	X			X		
UNDP	X			X		
UNICEF	X			X		
UNRWA			X			X
UNITAR	X			X		
UNHCR	X					X
UNEP	X					X
UNFPA	X				X	X[b]
UN-Habitat	X					X
UNODC	X			X		
International Criminal Tribunal for Rwanda	X					X
International Tribunal for the Former Yugoslavia	X			X		
UNJSPF	X					X

Organization	2010-2011			2008-2009		
	Unmodified opinion	*Qualified opinion*	*Emphasis of matter or other matter*	*Unmodified opinion*	*Qualified opinion*	*Emphasis of matter or other matter*
UNOPS	X			X		
UN-Women[c]			X	Not applicable		
Total	**16**		**2**	**9**	**1**	**8**

[a] Twelve-month period ended 30 June.
[b] The audit opinion for UNFPA was also qualified in respect of national execution expenditure.
[c] Entity established on 1 January 2011.

3. The Board is able to comment further on the overall audit opinions as follows:

(a) As none of the financial statements examined were prepared on the basis of the International Public Sector Accounting Standards, the audit opinions are not an indication of the success of IPSAS implementation;

(b) In the previous financial period, most of the audit opinions containing an emphasis of matter paragraph related to the management of non-expendable and expendable property. In the current period, the International Standards on Auditing were changed to provide greater clarity on emphasis of matter paragraphs and to require stricter criteria for their application. Furthermore, as the United Nations is in the process of implementing IPSAS, which has more stringent management, accounting and presentation of assets standards than the United Nations system accounting standards, improvements were made in this area. On that basis, the Board has issued fewer reports with emphasis of matter or other matter paragraphs in its opinions in the period under review;

(c) The audits included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent considered necessary for the Board to form an opinion on the financial statements. The results show that in general, the financial statements were free from material error in most entities. But the Board continues to note deficiencies in the design and in the consistency of operation of internal controls in such important areas as financial and asset management, procurement and contract management and performance and financial reporting. Deficiencies in those areas can increase the risk of fraud and decrease the value for money.

4. In the present report, the Board provides extracts from each audit report that contained modified audit opinions or audit opinions with emphasis of matter or other matter paragraphs.

5. For UN-Women, the Board issued a modified report with one emphasis of matter and one other matter on its audit of the financial statements for 2011, reflecting the fact that the Entity's internal control framework had not matured enough to ensure consistent application throughout its operations. As a result, UN-Women did not have assurance regarding expenditure incurred through the national implementation modality, as it had not established a process of monitoring and reporting on the results of nationally implemented funds.

6. Regarding UNRWA, the Board issued a modified report with one other matter paragraph to draw attention to the financial position of the Agency, including a deficit of $70.9 million for the biennium in its regular unearmarked funds, the low level of reserves of $0.82 million and the limited cash position of $35 million as at 31 December 2011. Regular unearmarked funds represent the core funding for UNRWA activities, and the depletion of those funds affects the operating activities of the Agency. The Board also highlighted in its report the impact of the shortage of funding on the effective functioning of internal controls maintained by UNRWA.

B. Financial management

Treasury and cash management

7. The United Nations and several of its funds and programmes managed significant cash and investments. The administrations have in some cases established specialized treasury functions to support their various needs, and some also provide cash management services to other organizations. As cash balances grow, and the number of accounts, transactions and payment currencies increases, so do the needs for systems and trained personnel so that risks are properly managed and the returns on cash resources are maximized. Furthermore, it is vital, particularly at a time of fiscal constraints, that organizations utilizing public funds adopt a strategy that minimizes the amount of cash needed to maintain operations and the optimum level of investments that should be held to underpin the delivery of their activities. Management should also have regular access to financial management information on cash and investments to inform decision-making.

8. In its previous summary report (A/65/169), the Board noted a growing trend of high cash and investment balances maintained by United Nations entities. The Board also identified weaknesses in the management of cash pools and investments as well as in the process of bank reconciliation. For the period under review, the Board continued to examine this matter.

9. As at 31 December 2011, cash and investment balances for the entities covered in the present report, including cash and cash pools, amounted to $21.3 billion (excluding UNJSPF), compared with $20.4 billion as at 31 December 2009 (an increase of 5 per cent). Taking UNJSPF into consideration, the aggregate investment balances, including cash and cash pools, amounted to $57.0 billion as at 31 December 2011, compared with $53.3 billion as at 31 December 2009 (an increase of 8 per cent) (see table 2).

Table 2
Cash and investment holdings of the United Nations and its funds and programmes
(Thousands of United States dollars)

	Cash and term deposits		*Investments*		*Cash pools*		*Totals*	
Organization	*2011*	*2009*	*2011*	*2009*	*2011*	*2009*	*2011*	*2009*
United Nations	67 434	53 525	92 962	76 773	3 531 100	3 899 224	3 691 496	4 029 522
Peacekeeping operations	236 697	73 334	–	–	3 617 641	2 371 226	3 854 338	2 444 560
ITC	5	9	–	–	56 081	55 417	56 086	55 426

Organization	Cash and term deposits		Investments		Cash pools		Totals	
	2011	2009	2011	2009	2011	2009	2011	2009
UNU	38 761	41 566	283 188	274 091	18 526	14 491	340 475	330 148
UNDP[a]	124 758	140 866	6 154 687	7 669 785	–	–	6 279 445	7 810 651
UNICEF	2 731 441	2 138 491	350 000	838 952	–	–	3 081 441	2 977 443
UNRWA	270 012	337 082	–	–	–	–	270 012	337 082
UNITAR	12	9	–	–	14 457	14 053	14 469	14 062
UNHCR	534 908	382 615	–	–	–	–	534 908	382 615
UNEP	12 930	8 034	–	–	414 838	368 560	427 768	376 594
UNFPA	9 052	12 500	735 274	578 423	–	–	744 326	590 923
UN-Habitat	9 709	3 038	–	–	218 549	207 726	228 258	210 764
UNODC	49 365	29 568	298 442	245 824	–	–	347 807	275 392
UNOPS	971 466	444 070	–	–	–	–	971 466	444 070
International Criminal Tribunal for Rwanda	375	1 544	–	–	51 411	53 170	51 786	54 714
International Tribunal for the Former Yugoslavia	2 583	9 636	–	–	78 184	50 067	80 767	59 703
UN-Women	61 867	–	266 905	–	–	–	328 772	–
Subtotal	**5 121 375**	**3 663 387**	**8 181 458**	**9 683 848**	**8 000 787**	**7 033 934**	**21 303 620**	**20 393 669**
UNJSPF	1 937 300	757 916	33 691 705	32 161 895	–	–	35 629 005	32 919 811
Total	**7 058 675**	**4 421 303**	**41 873 163**	**41 845 743**	**8 000 787**	**7 033 934**	**56 932 625**	**53 313 480**

[a] UNDP restated its comparatives.

10. As indicated in table 2, United Nations entities had $21.3 billion in cash resources held as either investments or cash. The balances can be attributed to contributions received in advance (before the activities were due to be carried out), working capital funds, cash held while implementation activities were under way, prior-period unused (cash) contributions, surpluses, and the like.

11. At several funds and programmes, including UNDP, UNFPA, UNICEF, UNOPS, UNODC, UNEP, UN-Habitat and UNRWA, the increasing cash balances also reflected the voluntarily funded nature of their activities, where the entities receive higher contributions for non-regular activities (contributions to fund-specific activities in accordance with donor agreements). Non-regular activities are generally funded in advance. For example, of the cash and investment balances of $6.2 billion of UNDP, $374 million is held in reserves mandated by the Executive Board and $4.6 billion represents resources paid in advance by partners for the implementation of planned programme activities. At UNRWA, while the Agency has $270 million in cash balances, $203 million is held to carry out specific earmarked activities funded by its donors. At UNOPS, the balance reflects contributions received in advance from its clients towards the implementation of their projects. UNHCR maintains a Working Capital and Guarantee Fund to replenish the Annual Programme Fund and to meet essential payments and guarantee obligations pending the receipt of contributions pledged.

12. Other than the explanations above, the Board has generally been unable to obtain detailed and complete explanations for the movements in cash balances for most of the entities. Furthermore, most of the entities did not have sufficient management information to explain the reasons for the overall level of cash pools held or to provide meaningful disclosures regarding the movements in cash balances in the notes to their financial statements.

13. The Board noted that the United Nations does not centrally monitor and report to senior management on what activities the cash and investment balances were expected to fund, why funds have not yet been utilized and when and whether the funds will be used for the purpose for which they were granted. Such analysis would help senior management to define a high-level strategy to set out the cash requirements of the United Nations and the resulting optimum level of cash and investments that should be held at the entity level. This opportunity to improve financial analysis would also enable management to maintain active oversight of the reasons for the level of cash and investments held at the entity level.

End-of-service liabilities (including after-service health insurance)

14. In its resolution 64/241, the General Assembly requested the Secretary-General to continue to validate the accrued liabilities for after-service health insurance with figures audited by the Board. Accordingly, the Board continued to review the actuarial valuation of accrued end-of-service and post-retirement liabilities. The overall results of the Board's review are presented in table 3.

Table 3
End-of-service liabilities in the United Nations and its funds and programmes
(Thousands of United States dollars)

	End-of-service liabilities			*Including after-service health insurance*			*Method of disclosure*				
Organization	*2011*	*2009*	*Increase (percentage)*	*2011*	*2009*	*Increase (percentage)*	*Full*[a]	*Partial*[b]	*None*[c]	*Lack of funding plan*	*Reserve for end-of-service liabilities*
United Nations	3 214 813	2 175 995	48	2 916 305	1 937 522	51	x			x	–
Peacekeeping operations	958 431	454 701	111	768 750	364 983	111	x			x	–
ITC	60 116	41 569	45	54 839	37 144	48	x			x	
UNU	9 780	5 705	71	6 684	3 614	85	x				
UNDP	984 687	544 460	78	826 538	430 301	92		x	x	x	453 224
UNICEF	921 563	578 284	59	783 172	463 989	69			x		321 402
UNRWA	34 109	27 646	23	481	–	–		x		x	–
UNITAR	4 904	2 671	84	3 720	1 923	93	x				–
UNHCR	482 918	446 829	8	350 773	347 418	1	x				482 918
UNEP	102 111	58 144	76	77 216	38 968	98	x			x	21 075
UNFPA	195 132	115 445	69	163 289	87 445	87	x				–
UN-Habitat	23 292	12 849	81	17 439	8 177	113	x			x	3 779
UNODC	42 233	24 670	71	30 178	14 476	108	x			x	42 233[d]
UNOPS	57 027	15 500	48	39 900	10 600	73		x	x		–

Organization	End-of-service liabilities			Including after-service health insurance			Method of disclosure			Lack of funding plan	Reserve for end-of-service liabilities
	2011	2009	Increase (percentage)	2011	2009	Increase (percentage)	Full[a]	Partial[b]	Note[c]		
International Criminal Tribunal for Rwanda	86 574	56 743	53	43 318	23 296	86	x			x	–
International Tribunal for the Former Yugoslavia	69 739	47 073	48	26 959	13 894	94	x			x	–
UNJSPF	48 314	37 363	29	44 868	34 431	30	x				–
UN-Women	37 600	–	–	27 400	–	–		x	x	x	–
Total	**7 276 372**	**4 645 647**	**57**	**6 181 829**	**3 818 181**	**61**	**13**	**4**	**1**	**11**	**1 365 478**

[a] Fully presented on the face of the financial statements.
[b] Partially presented on the face of the financial statements.
[c] Not fully presented on the face of the financial statements but fully disclosed in the notes thereto.
[d] Of which, the amount of $34,865,000 represents not proper reserves but temporary offsets against general balances and reserves.

15. As indicated in table 3, the aggregate amount of these liabilities was estimated at $7.3 billion as at 31 December 2011, a sharp increase of $2.7 billion (57 per cent) from the $4.6 billion total as at 31 December 2009. Some $2.3 billion of the increase is attributable to a change in the discount rate applied for the calculation of after-service health insurance liabilities, from 6.0 per cent to 4.5 per cent. The change in the discount rate reflects the broad decline in interest rates for high-quality corporate bonds, which are used as the benchmark for determining the discount rate.

16. The Board highlights the following issues regarding end-of-service liabilities:

(a) The disclosure of such liabilities by the United Nations and its funds and programmes in general is inconsistent and not fully transparent. Most entities chose to present them on the face of the financial statements. Four entities, namely, UNDP, UNRWA, UNOPS and UN-Women, accrued only part of those liabilities in the main financial statements and made full disclosure in the notes to the financial statements, while UNICEF continued to disclose them only in the notes;

(b) There are no clear funding plans to meet the liabilities for most of the entities, with some exceptions, such as UNHCR, which now has an approved funding strategy, and UNICEF, which had an approved funding strategy, although it is now under revision because of a large increase in after-service health insurance liabilities in the biennium 2010-2011 owing to a change in the discount rate;

(c) In its previous report (A/65/169), the Board expressed the view that the annual leave liability calculated on the basis of an actuarial valuation was not compliant with IPSAS, as it included future days to be accumulated and was discounted. Almost all United Nations entities continued to calculate annual leave liability on the basis of an actuarial valuation. IPSAS 25 has since been revised to provide that annual leave could be a long-term benefit. The Board is still concerned that the annual leave liability determined through an actuarial valuation understates the liability, as it does not recognize the part that will be incurred through use, but

emphasizes the part that will be paid out on retirement. This method therefore considers leave as a long-term benefit only.

17. The Board considers that unless the United Nations and its funds and programmes develop a strategy to fund such liabilities, they could be faced with a severe reduction in the resources available to deliver their programmes and to maintain staffing levels. The implementation of IPSAS should ensure the application of consistent accounting policies across the United Nations system.

Preparation and presentation of the financial statements

18. The executive heads of the United Nations entities are responsible for preparing accurate financial statements in accordance with the Financial Regulations and Rules of the United Nations and the applicable accounting framework. United Nations entities need to have robust processes to enable them to appropriately discharge this responsibility and to ensure the transparent and fair presentation and disclosure of their financial statements. These procedures generally include preparing supporting schedules and analyses to allow for management review and verifying that the financial statements accurately reflect accounting records and that they are compiled in accordance with the stated accounting policies. The Board noted the following:

(a) **There was a lack of robust processes for the preparation of financial statements and management review.** Such processes would be streamlined and well documented and would include regular account reconciliation and effective internal review in some entities. This will be even more critical under the IPSAS regime, which requires more complex and comprehensive disclosures within the financial statements. The Board noted, however, that for most of the accounts administered by the United Nations, the procedures for producing financial statements remain unduly complex, with significant reliance on manual and insufficiently documented processes to generate financial performance information. The Board also found that UNDP, UNOPS and UN-Women had differences in their balances of inter-agency or other receivables or payables that could have been identified, reconciled and cleared early in the financial statement preparation process;

(b) **The presentation of the financial statements was not sufficiently transparent.** In some entities, management and administrative costs are not fully transparent in the financial statements. For example, the Board noted that UNICEF had recorded $163 million in management and administrative costs as programme costs in its unadjusted financial statements. As a result, the administrative costs were understated by the same amount. The Board also noted that donor contributions of $185 million pledged for 2012-2014 were initially not recorded as revenue at the Office for the Coordination of Humanitarian Affairs. The respective administrations subsequently made adjustments or further disclosures in the notes to their financial statements. The Board is of the view that administrations need to consider being more transparent and complete in the financial statements.

Financial reporting for management

19. Effective financial reporting, including regular accounting and financial performance reports, provides vital information that can be used to assess outcomes, make informed decisions and hold staff to account.

20. The Board's review of the financial management function at the United Nations and its funds and programmes indicates that in most of the organizations, management accounts are either non-existent or not well developed, which can lead to poorly informed decision-making. The Board acknowledges that some entities, including UNRWA, UNDP and the United Nations, are committed to the introduction of management accounting. In the case of the United Nations, this is being built into the design of the new enterprise resource planning system (Umoja).

21. While the Board recognizes that the fragmented systems and intensive manual processes currently used by the Secretariat make it difficult to generate regular management accounting information, there is still scope for improving financial reporting for management through the more effective use of existing systems. A good example in this regard is OHCHR, which regularly produces financial performance data on extrabudgetary activities from its systems into worksheets to support management's decision-making.

Cost plan

22. A cost plan is an internal estimate for how much should be spent in a certain period within the approved budget. Since the cost plan is an internal document that in principle, under the Financial Regulations and Rules, should not be the basis for the establishment of obligations, it is important that at the end of the year there be a robust review and reconciliation, if necessary, of obligations against actual local costs incurred to ensure the accurate recording of expenditure. The Board noted that the review and reconciliation process undertaken by OHCHR was insufficient and found that because of the high cancellation ratio in each biennium, if this pattern were to continue, the expenditure of OHCHR could be overstated by some $11 million in 2010-2011.

Lessons for administrations

23. Transparency is one of the main characteristics of high-quality financial management. This is especially vital for publicly funded international organizations. Financial transparency supports better informed assessments of the resource allocation decisions made by legislative bodies and strengthens public confidence in how such entities are using their resources.

24. As mentioned above, the Board identified a number of weaknesses in terms of financial transparency, such as inconsistent disclosure of end-of-service liabilities and misclassification of administrative costs. It is critical that trust be maintained between the United Nations and its funds and programmes on the one hand and related stakeholders on the other to enhance the transparency of their financial statements. This means providing clearer, more comprehensive and more relevant information regarding the financial consequences of decisions in financial statements and/or the notes thereto. Strengthening the financial statement preparation process and establishing the concept of management accounts would also assist in enhancing transparency and improving decision-making.

C. Status of implementation of the International Public Sector Accounting Standards

25. In accordance with General Assembly resolution 61/233 A and in response to the comments of the Advisory Committee on Administrative and Budgetary Questions regarding the adoption of the International Public Sector Accounting Standards (see A/65/782), the Board continues to assess the status of implementation of IPSAS.

Realizing the benefits of the Standards

26. Accrual-based accounting under IPSAS requires organizations to recognize costs when they are incurred and income when it is earned and to account for the value of all assets and liabilities. This new information could offer:

(a) Increased transparency and accountability, with Member States having greater insight into entities' performance and financial position;

(b) Improved cost-effectiveness, with management having better information to enhance understanding of the cost of their operations, drive cost-effective decision-making and secure long-term financial sustainability.

27. Projected benefits form an important part of the business case for implementing IPSAS. The delivery of the intended benefits of IPSAS will be the ultimate test of success, not the delivery of IPSAS-compliant financial statements. IPSAS implementation should therefore be regarded as a major business transformation process requiring disciplined and effective change management. In general, the Board has seen limited progress in this area, primarily because of a strong and understandable focus on technical and practical issues related to the delivery of IPSAS. While the limited progress is understandable, the Board is of the view that the delivery of benefits cannot be overlooked, and it notes that the failure to actively manage benefit realization along with technical delivery is a common factor in failed projects. The Board therefore continues to encourage the entities to develop effective benefit realization plans and establish the change management practices needed to bring them about.

Producing financial statements in compliance with the Standards

28. Considerable progress has been made towards producing IPSAS-compliant financial statements for 2012 by the funds and programmes that went live with IPSAS on 1 January 2012. While there are residual risks, the Board considers that UNDP, UNRWA, UNFPA, UNOPS, UNJSPF, UNICEF and UNHCR are now firmly on track to meet their deadlines. The remaining areas of risk include the completion of data clean-up, the preparation of opening balances and the conduct of a dry run of the financial statements as well as management of the first IPSAS-based annual financial statement preparation process.

29. The successful implementation of IPSAS for peacekeeping operations by July 2013 and the United Nations by January 2014 remains at high risk (see table 4). In view of the current status, a very significant amount of work is still required in order to be able to prepare complete, reliable, accurate and auditable IPSAS-compliant data by the target dates.

30. The United Nations and other entities following its implementation strategy were planning to use the new enterprise resource planning system to support IPSAS

implementation. But because the system will not be ready on time, the United Nations will now be using legacy systems, in particular IMIS, as a transitional measure. While the Administration informed the Board that IMIS had strong capabilities, comparable to the SAP system in many areas, and could be modified to provide accurate and auditable accrual-based accounting data, the Board notes that the proposed IMIS solution will not be fully evaluated and tested until the end of 2012. The Administration therefore has no assurance yet that this approach is feasible, and there are risks because of the need for extensive manual collection of complex data.

31. The latest position of the Administration as at the time of reporting is that, following work undertaken very recently to assess the readiness of Umoja for roll-out by the vendor, it will be available for peacekeeping missions in October 2013, part-way through the first year of adoption. For the United Nations, it is likely that IMIS will remain the core financial system for the first year of adoption, with a phased roll-out of Umoja.

Table 4
Assessment by the Board of Auditors of risk to producing IPSAS-compliant financial statements by the target implementation dates

Risk	*Entity (target date)*	*Key issues*
High	United Nations (2014) Peacekeeping operations (mid-2013) UNU (2014) UN-Women (2012)	• The implementation of IPSAS in the United Nations and peacekeeping operations is complex and will require the completion of substantial data-gathering and cleansing exercises • Activities for gathering, cleansing and migrating accounting data are not well advanced; assets are a particular risk area In relation to the other entities: • Model draft financial statements have not yet been prepared and shared with the Board, and there are no plans for a dry run using real accounting data under the current implementation strategy • There are no clear plans for establishing opening balances • UN-Women was established only in 2010, and therefore the deadline for implementation is extremely challenging • UNU has not established an implementation team nor developed an action plan for IPSAS. The enterprise resource planning system is different from the one that the United Nations is using, a big challenge for the implementation of IPSAS
Medium	ITC (2014) UNEP (2014) UN-Habitat (2014) UNODC (2014) UNITAR (2014) International Criminal Tribunal for Rwanda (2014) International Tribunal for the Former Yugoslavia (2014)	• These are less complex entities than those in the high-risk category and will be following the United Nations accounting policy framework • Implementation plans and risk assessments are in place • There remains uncertainty on how the necessary tasks for IPSAS implementation will be resourced

Risk	*Entity (target date)*	*Key issues*
Low	UNDP (2012) UNICEF (2012) UNRWA (2012) UNHCR (2012) UNFPA (2012) UNJSPF (2012) UNOPS (2012)	• Most entities have a fit-for-purpose enterprise resource planning system in place • All entities have plans in place for a dry run using real accounting data • Activities for gathering, cleansing and migrating accounting data are in progress and on schedule • Most entities have prepared model draft financial statements and shared them with the Board • All of these entities are now into their first live year of implementing IPSAS

Lessons for administrations

32. For the United Nations and its peacekeeping operations:

(a) A comprehensive implementation plan based on the IMIS approach needs to be finalized urgently;

(b) An updated risk assessment, which takes into account the IMIS approach, needs to be developed for senior management to use to manage key risks to implementation;

(c) Clarity needs to be given to offices away from Headquarters on how, when and where key accounting data need to be delivered and how those activities will be resourced.

33. For the United Nations, its peacekeeping operations and the funds and programmes implementing IPSAS:

(a) Comprehensive benefit-realization and change-management plans need to be developed;

(b) Clear accountabilities need to be established for the delivery of benefits and mechanisms to track such delivery need to be developed;

(c) Senior management and governing bodies need clear and transparent reporting on progress towards the realization of benefits.

D. Budget management

34. Budgeting describes the financial characteristics of an organization's plans for the forthcoming period and involves the formulation and execution of and performance reporting on a budget. It is a key tool for effective financial management and control and is the central component of a process that provides oversight of the financial dimension of an organization's operations. In this regard, the Board examined the budget management processes for the period under review and found the deficiencies described below.

Budget formulation

35. Budget formulation is the process by which an organization formulates its objectives, sets out its programme of work to meet those objectives and estimates its gross resource requirements.

36. Budget assumptions, such as the vacancy rate, are the main costing parameters, which should not only involve future needs but also take into account historical trends and foreseeable factors that may have an impact on the budget. The Board, however, found significant disparities between budget assumptions in several organizations' budget proposals and relevant historical data, which could not be fully justified. For example, in peacekeeping operations, the Board found, on a sample basis, that some missions applied unreasonably low vacancy rates without sufficient justification in formulating their personnel budgets for 2010/11. Similarly, insufficient justifications for the vacancy rate applied in the UNICEF support budget formulation for 2010-2011 were also identified.

37. Robust computation methods are also critical in formulating a reasonable budget. The Board is concerned about the weakness found in cost estimation computation methods at some peacekeeping missions. For example, although the price and consumption of fuel vary significantly, some missions use an arithmetic average instead of a weighted average to formulate the fuel budget. As a result, the fuel budget could be overestimated.

Budget execution

38. Budget execution is the process by which an organization incurs expenditure against the present budget to pursue its expected objectives while observing budget discipline. While recognizing the need for organizations to have some flexibility to redeploy funds in response to changing priorities and external factors, the Board is of the view that the large number and extent of budget redeployments, as well as the lack of adherence to disciplines governing such redeployments, might be indicative of deficiencies in both budget formulation and management.

39. For example, in peacekeeping missions the Board identified such deficiencies as frequent and large budget redeployments without solid justification and approval of redeployments after the fact.

40. The Board is concerned that the above-mentioned deficiencies could undermine the merits of using the budget as a tool for monitoring and assessing the performance of organizations. The Board is of the view that management should enhance its current monitoring mechanism to strengthen budgetary management, especially for ex post facto and high-value redeployments.

Budget performance reporting

41. Budget performance reporting is the mechanism by which an organization monitors progress towards achieving its objectives, especially by aligning programme performance information with financial performance information. Effective performance reporting, which constitutes a central pillar of an effective accountability framework, requires that organizations provide accurate, complete and clear information on programme and financial performance to demonstrate accountability and stewardship.

42. The Board found a lack of analysis of key issues, with very limited consideration of programme performance information against financial performance information and lengthy performance reporting in the United Nations and its funds and programmes.

43. In the context of limited resources, it is essential that administrations demonstrate their accountability to the funds entrusted to them by formulating robust budgets, applying rigorous methodologies to execute the budgets and reporting clearly and robustly on performance, utilizing integrated financial and performance information. The deficiencies identified will limit the ability of organizations to objectively assess whether they are using their resources effectively.

Lessons for administrations

44. The budget is at the core of oversight of the financial dimensions of an organization's operations, and constitutes the foundation of an effective accountability system. The Board believes there is scope for administrations to improve budget management by:

(a) Making more reasonable and justified requests for resources to deliver their mandates by applying robust budget assumptions and budgetary approaches;

(b) Instituting more discipline in budget implementation;

(c) Aligning financial performance with programmatic performance to effectively monitor the process of achieving objectives and ensure enhanced accountability.

E. Management of support services

Asset management

45. The fact that the United States system accounting standards do not require United Nations organizations to account for assets in their financial statements has, in the Board's view, contributed to weaknesses in the stewardship and control of assets, including both expendable property and non-expendable property; the Board acknowledges, however, that many entities have developed various systems to capture information on expendable and non-expendable property.

46. The Board estimated that the aggregate value of the non-expendable property of the 17 entities and the peacekeeping operations covered in the present report totalled approximately $4 billion (the historic cost as at 31 December 2011) (2009: $3.7 billion). There are no reliable estimates of expendable property. As organizations undertake physical verifications and valuations during their preparation for IPSAS, it is likely that the disclosed amounts or estimates will change materially, especially for expendable property. In the meantime, the Board noted the following deficiencies in asset management:

(a) **There is a high risk of loss and/or wastage from unused non-expendable property**. For example, in peacekeeping operations, some 23,243 assets valued at $136.56 million in 14 missions remained in stock for more than a year and had not been used as at the end of the financial period, on 30 June 2011. In particular, 3,247 of those assets (valued at $13.74 million) were classified as being

in bad condition, as being written off or as pending write-off. While noting that over 75 per cent of the items identified as never having been used belonged to two of the largest asset-holding missions (UNAMID and UNMIS), the Board was of the view that this was still a significant deficiency in the management of assets and that one of the main reasons for it was the absence of an effective oversight mechanism in supply chain management linking procurement to inventory. Robust monitoring of asset management and the procurement function are necessary to minimize loss and/or wastage;

(b) **There is uncertainty over the value of expendable and non-expendable property**. The common and recurring shortcomings in asset management indicate that the controls in place do not provide adequate assurance of the completeness and accuracy of the value of expendable and non-expendable property. Problems include discrepancies between records and physical count results and delays in the reconciliation of those discrepancies, the inability to locate a significant portion of assets or the obsolescence of the assets, and incomplete data on expendable property (inventory) registers. Given the huge amount of expendable and non-expendable property (about $4 billion), this uncertainty presents a key risk for the IPSAS regime, under which assets must be fully accounted for;

(c) **There is a lack of robust procedures for conducting inventories**. Expendable and non-expendable property is distributed worldwide in countries and areas in which United Nations entities maintain operations. While recognizing that many entities have made progress in obtaining the accurate value of property, the Board found that the counting procedures were either inadequate or were not systematically applied, resulting in errors in the inventory verification process. The Board also found that part of the problem was the initial recording of inadequate information in the system, with the result that items were not clearly identified in the records of organizations.

47. The Board is of the view that United Nations entities should institute the following measures to ensure accurate information regarding expendable and non-expendable property:

(a) Recording of inventory: United Nations entities should review the procedures and systems for recording inventory to ensure that sufficient information is recorded on the acquisition of property;

(b) Inventory certification: United Nations entities should review their inventory certification procedures to ensure that they address identified risks, are well planned and are consistently applied across the operations in the field;

(c) Training in asset management procedures: the task of keeping records of expendable and non-expendable property has usually had a less than prominent role in financial functions, especially as such items are not recorded in the statement of assets and liabilities. There is now a need to ensure that such record-keeping is performed by personnel who have received adequate training in all aspects of inventory management.

Procurement and contract management

48. Procurement and contract management is essential in meeting the operational requirements and delivering on the mandates of the United Nations and its funds and programmes. Organizations contract for goods and services because they have

identified them as necessary for the successful delivery of their objectives. If procurement is not carried out in a fair and transparent manner and/or the contracted goods and services are not delivered on time and according to the specifications, then not only is the value of the procurement compromised, but also the delivery of the related operational objectives is placed at risk.

49. The Board reviewed procurement and contract management activities across the United Nations and its funds and programmes and identified the following deficiencies:

(a) **There is a lack of competition for goods and services**. The Board found frequent use of waivers of competitive bidding, splitting of awards and post facto approvals that were either not adequately supported or the result of poor procurement processes within organizations. Furthermore, the Board found instances in which organizations did not comply with their internal rules regarding the number of bids submitted and the time frame for bidding, which resulted in less competitive procurement settings. In many cases there were no adequate structures for proactively reviewing those cases and ensuring that adequate action was taken to prevent a recurrence;

(b) **Requisition planning and procurement management are inadequate**. This exposes organizations to risks of approval on an exigency basis, ex post facto approvals and inadequate consideration of stocks before making requisitions;

(c) **Vendor and contract management is ineffective**. At the United Nations, the Board found that evaluations of vendor performance had not been completed consistently and that only 50 per cent of contracts included key performance indicators to measure contractor performance. At UNHCR, the Board found that a consistent corporate framework for performance measurement in procurement had yet to be finalized and that the supply manual did not specify a framework for performance measurement at the country level. The risk is that poorly performing vendors could continue to be awarded contracts by the United Nations;

(d) **Training and professionalism are lacking**. The Board found that at the United Nations, 54 per cent of contract managers had not had any training in contract management. At UNHCR, the Board found that designated supply officers were in place in only one third of the 126 countries in which UNHCR had purchased goods in 2011 and that the Office did not know how many of those officers held relevant professional qualifications. The risk is that those responsible for delivering the best possible value from United Nations contracts lack the skills and experience to do so.

Lessons for administrations

50. Regarding the deficiencies mentioned above in the management of support services, the Board would like to highlight the following lessons to be learned by the Administration:

(a) There is a need to make full use of available inventories to avoid loss and/or wastage and to take full account of stock levels (including of strategic stocks) before procuring goods to ensure the effective use of resources;

(b) There is a need to enhance governance and oversight in the area of asset management by conducting regular and sufficient physical inventory, reconciling in a timely manner discrepancies found and maintaining complete inventory records;

(c) There is a need for organizations to implement effective procedures to ensure sufficient competition for the procurement of goods and services as well as to place value for money as a central theme in the consideration of procurement activities. Good procurement and contract management can result in financial savings, improvements in the quantity and/or quality of goods and services, the avoidance of service failure and better management of risk.

F. Programme and project management

51. Effective programme and project management requires organizations to establish measurable objectives, develop implementable workplans and proportional resource requirements and effectively monitor the implementation of workplans and the expenditure of resources to achieve their objectives.

Deficiencies in strategic planning

52. Strategic planning, in which what is to be achieved and how the goals will be met are set out, is at the heart of programme management. Effective strategic planning requires the alignment of clearly defined objectives, measurable outcomes and allocated resources, which are also necessary to ensure accountability.

53. A review of strategic planning shows that the deficiencies reported by the Secretary-General in his report entitled "Towards an accountability system in the United Nations Secretariat" (A/64/640) still exists widely across organizations. High-level strategic objectives and priorities of organizations are not clearly formulated or attainable and are often linked to lower-level activity. Expected accomplishments and associated indicators of achievement are formulated mainly at the level of activities and outputs and do not necessarily lend themselves to the achievement of organizational objectives. Some entities did not have annual or biennial comprehensive workplans to effectively guide activities across the entire organization.

Inadequate monitoring of project execution

54. It is vital that organizations track progress against agreed deliverables and deadlines during project implementation. The Board however noted a number of insufficient monitoring activities in project implementation across entities. For example, at UNICEF, the Board identified several weaknesses in project implementation, such as insufficient microassessments as well as insufficient spot checks and audits of projects executed by implementing partners at some field offices.

55. At UNRWA, the Board noted weaknesses in project management controls, including a lack of basic information regarding projects, a lack of donor communication, delays in project implementation, overspending on projects and delays in closing completed projects.

56. The Board also noted deficiencies in the forecasting of final costs on the capital master plan and Umoja projects. This hindered both effective oversight by those charged with governance and timely decision-making to mitigate the risk of further cost increases.

Assurance regarding funds disbursed to implementing partners

57. Many United Nations funds and programmes, for example, UNDP, UNFPA, UNICEF and UNHCR, rely on working with implementing partners to execute projects and fulfil their mandates. An overview of funds allocated to the implementing partners from concerned United Nations funds and programmes are provided in table 5.

Table 5
Funds allocated to implementing partners by selected entities
(In thousands of United States dollars)

		Total expenditure	
Organization[a]	*Allocated to partners*	*Amount*	*Percentage*
UNDP	6 702 855[b]	11 266 392	59
UNICEF	2 111 476	7 424 310	28
UNHCR	1 471 253	4 200 875	35
UNFPA	477 665	1 648 360	29
UNODC	27 519	450 146	6
UN-Women	58 000	198 315	29
Total	**10 848 768**	**25 188 398**	**43**

Note: Because of the unavailability of data with respect to funds allocated to implementing partners at some entities, the table does not present the full picture for the United Nations and its funds and programmes.

[a] UNEP and UN-Habitat both have implementing partners but do not calculate or disclose within their accounts the total funds allocated to them.

[b] UNDP balances include only core and cost-sharing programme expenditure.

58. In its previous summary report, the Board identified deficiencies in the processes for the submission of expenditure and audit reports to United Nations organizations to provide assurance to management and the Board on how funds had been expended. The Board continued to observe the following deficiencies in obtaining adequate assurance on funds disbursed to implementing partners during the biennium:

(a) **Inconsistent modalities for accounting for funds disbursed to implementing partners**. In the prior biennium, the Board noted that UNDP and UNFPA had provided funds to implementing partners as advances while UNICEF had recorded such funds as expenditure. UNICEF has taken steps to improve management practices related to cash transfers to implementing partners. As a result, as of 2012, cash transfers are treated as advances until satisfactory performance is demonstrated by the partners. The Board has found during the biennium that the Office for the Coordination of Humanitarian Affairs provides funds to implementing partners and records them as expenditure at the time of the agreement between the Office and the implementing partner, a process that was not supported by adequate mechanisms to provide assurance that funds are spent for the purposes intended;

(b) **Lack of assurance over funds disbursed to implementing partners**. The Board noted various levels of assurance activities, such as spot checks and field

audits, of implementing partners across entities. For example, the Board noted that in the Office for the Coordination of Humanitarian Affairs, final or progress reports for many projects had not been provided at the end of the financial year as required in signed agreements. As a result, the Office has weak assurance over the programme expenditure incurred in 2010-2011;

(c) **Deficiencies in the harmonized approach to cash transfers**. To reduce transaction costs for implementing partners and to strengthen the financial management capacity of implementing partners, the United Nations Development Group, composed of UNDP, UNFPA, UNICEF and UNOPS, introduced the harmonized approach to cash transfers (HACT) framework to provide a risk-informed operational management framework and consistently account for the transfer of cash to implementing partners in the field. The Board's review of the implementation of HACT in such organizations as UNDP and UNFPA revealed systematic issues, including a general lack of progress in the implementation of the HACT framework in the system, the lack of a clear understanding of which entity should be responsible for monitoring the implementation of HACT and incoherent implementation of the framework in the field. The United Nations Development Group also conducted its own review, in which major deficiencies were found in the framework. Those deficiencies are clear signals that the framework currently is not operating as intended and needs an urgent review of its current failings before it is fully pursued.

59. The Board sees a need for the following:

(a) **An urgent review of the HACT framework**. Considering that the framework has not worked, the Board sees a need to review the design of the framework and how it can be revised to address its current weaknesses;

(b) **Review of the entity-specific architecture to support HACT**. Part of the reason for the lack of progress has been the lack of ownership in organizations of a process to drive and monitor HACT implementation. Where the HACT framework is to be pursued, there is a need by the participating agencies to review how the HACT programme is supported and monitored at the entity level;

(c) **Consistency and assurance regarding funds transferred to implementing partners**. The Board has found that funds and programmes have developed mechanisms to work with implementing partners in delivering projects. In relation to its findings on the Office for the Coordination of Humanitarian Affairs, the Board sees scope for the Office to consider the systems and procedures that are already in place to manage funds transferred to implementing partners.

Programme performance reporting

60. Performance reporting is essential if management and governing bodies are to know where the organization stands, how the results were generated in terms of cost-effective use of resources and what the scope for improvement is. The Board found that performance reporting was weak in several of the entities it audited. For example:

(a) At UNICEF, 37 of the 59 performance indicators could not be directly linked to activities in UNICEF country programmes. In addition, the actual programme performance of field offices was not fully linked to the outcomes and achievements presented in UNICEF annual reports;

(b) UNODC did not combine information on costs with information on substantive progress, thereby limiting its ability to report on overall progress. Furthermore, UNODC progress reports to senior management focus on how much has been spent rather than on the substantive progress on the implementation of regional programmes and what they have achieved;

(c) At UN-Habitat, performance reports did not include explanations of variations in performance; senior management did not regularly review performance; there were gaps in evidence in support of reported performance; and lessons from project evaluations were not gathered and disseminated;

(d) In the United Nations, none of the 85 indicators of achievement reviewed by the Board were focused on outcomes, and only 21 per cent were clearly related to the expected accomplishment they were intended to address. This lack of focus on outcomes (while it is acknowledged that it is not always easy to define outcome-based indicators), combined with very limited consideration of programme performance information against financial performance information, means that the United Nations is unable to robustly assess whether it is using its resources in a cost-effective manner.

Lessons for administrations

61. Effective programme and project management requires that the aims and objectives of an organization be articulated consistently and, where layers of strategy exist, that they be aligned in support of a consistent and shared understanding at all levels of the organization. Failure to align the relevant documents can lead to staff focusing their efforts on peripheral activities, undermining the achievement of the organization's aims. From the cases illustrated above, the Board highlights the following lessons to be learned by the Administration:

(a) It is important that outcomes, outputs and indicators be clearly aligned with an organization's overall strategy;

(b) It is important that organizations develop clear, measurable indicators of success to demonstrate they have addressed concerns expressed by Member States or legislative bodies and assessed the cost-effectiveness of the change;

(c) It is important that projects and programmes be evaluated to provide assurance that funding has been used for its intended purpose and that expenditure has provided value for money;

(d) Effective performance reporting is necessary if decision makers are to be well informed of programme progress and equipped to address programme problems and to enable the organization to demonstrate its effectiveness to external stakeholders.

G. Fundraising activities

62. United Nations entities generally receive their funding through regular assessed contributions (e.g. the majority of United Nations Secretariat and related programmes), or through voluntary funds provided by Member States (e.g. UNDP

and UNFPA). The Board has noted an arrangement in UNICEF, however, whereby it raises a considerable portion of its funding through its National Committees.

63. UNICEF National Committees are the official and exclusive partners for raising private sector funds on behalf of and for UNICEF, and they raise about one third of UNICEF annual income. The Board's review of arrangements between UNICEF and its National Committees indicated the following weaknesses and deficiencies:

(a) **High retention rates by National Committees**. The Board's analysis reveals that from 2006 to 2011, $2.02 billion, or 29 per cent of donations raised, was retained by 36 National Committees to cover their expenses, while the target retention rate was less than 25 per cent. For the biennium 2010-2011, the Private Fundraising and Partnerships Division of UNICEF and the National Committees incurred total expenses of $952.58 million, representing 33 per cent of total private-sector fundraising income of $2,881.08 million;

(b) **Incomplete recognition of income from donations raised by National Committees on behalf of and for UNICEF**. UNICEF records only the net proceeds it receives from National Committees rather than gross proceeds raised by them as revenue in the financial statements. For the biennium 2010-2011, of $2.65 billion in gross proceeds raised by National Committees, $627 million retained by them was not recognized as income and expenditure by UNICEF, which was later adjusted following the Board's audit. UNICEF subsequently added further disclosures in the notes to the financial statements to appropriately reflect the revenue and expenditures relating to the private sector funds raised by National Committees;

(c) **Lack of effective oversight by UNICEF of the activities of National Committees in accordance with the cooperation agreement**. While recognizing the efforts of UNICEF to establish a control framework to oversee the allocation of funds to National Committees and their utilization, actual monitoring was insufficient and should be improved. For example, the cooperation agreement amendments signed by UNICEF and one National Committee granted the Committee unconditional right to use donations raised in the name of UNICEF; there is a risk that in this instance the National Committee may claim to raise funds for and on behalf of UNICEF while in reality allocating funds to non-UNICEF programmes, the utilization of which UNICEF cannot oversee effectively.

H. Business transformation programmes

64. The United Nations is in the midst of four large-scale business transformation projects. The Board has reported on three of them separately: the new enterprise resource planning system (Umoja), IPSAS and the capital master plan, and the Board commented on the global field support strategy in its previous report on peacekeeping operations. All of these projects are crucial drivers in modernizing the Organization and keeping it relevant.

65. The Board has summarized the common and significant problems in each of the projects, including an absence of an end-state vision together with an action plan to realize it, a lack of complete and transparent reporting of progress, costs and budgets, insufficient risk and change management and weak governance.

66. The Board notes in particular the considerable difficulties encountered regarding the Umoja project in the biennium 2010-2011. This is a very challenging and complex business transformation project involving a major redesign and upgrading of the United Nations finance, supply chain and procurement, human resources, central support services, and programme and project management processes. It goes to the heart of how the United Nations is run and affects the entire operation. The project has not identified, however, how it should improve management information and has not defined the specific benefits it aims to achieve, how it plans to achieve them or how they will be measured. The risk is that an opportunity to improve the efficiency and effectiveness of the United Nations will be missed and that the benefits offered through Umoja might not be fully achieved.

Lessons for administrations

67. The Board highlights a number of lessons to be learned, as follows:

(a) A coherent and articulated vision for change based on a good understanding of the operation as a whole, the opportunities for change and the most cost-effective way forward is needed;

(b) A realistic and holistic assessment of the ability of the United Nations to absorb change and deliver on its ongoing mandates is needed. This requires a higher-level strategic assessment of interdependencies and clear sequencing so that the programmes have an ideal environment for success and early demonstration of delivery (perhaps in one part of the Organization);

(c) Benefits realization needs to be actively managed;

(d) Robust and transparent reporting is needed on project cost and progress;

(e) Clear accountability is necessary for the success of business transformation projects, as well as effective governance that both challenges and supports the implementation team.

II. Governance and accountability

68. In general, all of the deficiencies identified in the reporting period can be linked to weaknesses in governance. Governance is the system of rules and regulations and related bodies by which an organization is operated and controlled. A strong governance system improves transparency and accountability and supports the achievement of an organization's objectives. It includes two important aspects: accountability and the internal control framework.

Accountability

69. The Board is of the view that an effective system of accountability requires that:

(a) Responsibilities and authority for policy and operational decisions be clear throughout the entire delivery chain, from headquarters to individuals operating in the field;

(b) There be a clear process for measuring outcomes, evaluating performance and demonstrating value for money, which in turn allows senior managers to be held to account;

(c) All bodies receiving funding from United Nations organizations be well governed, have robust financial management arrangements in place and be subject to the full range of external and internal audits. Where funding is provided to third parties, senior managers should be responsible for ensuring that there is an appropriate framework in place to provide the necessary assurances and controls.[1]

70. The Board has identified various concerns that point to deficiencies in accountability in various organizations, including the following:

(a) Performance reporting is not focused on outcomes or integrated with financial performance reporting, and performance indicators at the programme and project levels are not well developed. The Board has identified specific concerns in this regard in its reports on the United Nations, UNICEF, UNOPS, UNRWA, UNHCR, UNODC, UNEP and UN-Habitat;

(b) Many entities have not always established effective systems to provide robust oversight or the necessary level of assurance that the funds they provide to third parties have been utilized in a cost-effective manner. The Board in particular highlighted such weaknesses on UNHCR (for 2010), the Office for the Coordination of Humanitarian Affairs and UN-Women;

(c) In UNICEF, the Board highlighted concerns about oversight over the activities of National Committees raising funds on behalf of UNICEF;

(d) Within the United Nations in particular, the Board has pointed to an absence of clear and open reporting on costs and progress and a lack of effective governance and accountability arrangements for major business transformation programmes, such as Umoja.

Internal control framework

71. The internal control framework is the system by which an organization's structure, work and authority flows and people and management information systems are designed to help the organization accomplish specific goals or objectives. It is a means by which resources are directed, monitored and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources.

72. The head of each United Nations organization has overall responsibility for the proper operation of the internal control framework. This responsibility is discharged primarily through the organization's financial and other rules, regulations and procedures, which should provide for proper stewardship and accountability for how resources are used.

73. The Board noted that in general the administrations place heavy reliance on low-level controls governing financial transactions. While the Board has not

[1] Assurances should ascertain whether the funding has been spent with propriety and on the purposes intended; whether value for money has been achieved; whether the bodies concerned are financially resilient; and how to respond to any failure to ensure that funding is protected and Member States' interests are served.

generally identified material failure in the operation of internal controls, it continues to observe a range of control deficiencies to varying degrees in almost all entities, as commented upon herein, for example: the lack of robust oversight over the utilization of assets; the lack of fully justified budget assumptions in formulating budgets; excessive and inappropriate use of procurement waivers; weak stewardship and management of expendable and non-expendable property (inventory); and an absence of a well-developed set of higher-level controls, such as regular financial reporting to senior management, management accounts to facilitate active monitoring and control over expenditure at all levels and effective decision-making, and organization-wide approaches to risk management.

III. Status of implementation of recommendations

74. As part of each audit, where the Board observes weaknesses, it considers the root causes and possible impact and then makes recommendations to address the deficiencies observed. The Board routinely follows up on recommendations made in its previous reports to ensure that the respective organization has taken actions to implement recommendations or, where appropriate, can justify why the recommendations have not been implemented or were not accepted.

75. For the period under review, the Board has summarized in an annex to each report the status of the organization's implementation of the Board's recommendations for the previous financial period. A table summarizing the status of implementation of the recommendations by organizations is contained in annex III to the present report.

76. Of the total of 676 recommendations made up to 31 December 2009 (31 December 2007: 623 recommendations), 437 recommendations (65 per cent) had been fully implemented. This represents a slight increase in the rate of implementation compared with the previous biennium, in which 59 per cent of the previous recommendations had been fully implemented. For the rest of the recommendations:

(a) 191 recommendations, or 28 per cent, had been partially implemented (31 December 2007: 169 recommendations, or 33 per cent);

(b) 38 recommendations, or 6 per cent, were not implemented (31 December 2007: 16 recommendations, or 3 per cent);

(c) 10 recommendations, or 1 per cent, were overtaken by events (31 December 2007: 28 recommendations, or 5 per cent).

77. While the Board welcomes the progress made (59 per cent reported to 31 December 2007 versus 65 per cent by the end of 2009) in the full implementation of its previous recommendations, it emphasizes the need to address the unimplemented recommendations. The specific reasons for those recommendations that had not been fully implemented by early to mid-2012 were provided separately in the Board's report on each organization.

78. The Board's recommendations cover a wide variety of topics across many organizations and the rates of implementation vary. Given the range of topics covered, the Board could not discern any meaningful patterns or trends that would merit comment on recommendations not fully implemented.

79. The Board would like, however, to highlight the following critical lessons to be learned by administrations in the implementation of its recommendations:

(a) The need for the administrations to establish a dedicated follow-up mechanism or function by allocating specific responsibility for the implementation of all recommendations to the related division, holding it to account and to a predetermined time frame;

(b) The need for management to take greater ownership for implementing recommendations to effectively address the root causes of the problems identified by the Board.

IV. Acknowledgement

80. The Board wishes to express its appreciation for the cooperation and assistance extended to it and its staff by the United Nations Secretariat and the funds and programmes.

(*Signed*) **Liu** Jiayi
Auditor-General of China
Chair of the Board of Auditors

(*Signed*) Terence **Nombembe**
Auditor-General of South Africa

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland

30 June 2012

Annex I

Organizations audited

Organization	*Lead auditor*
Biennial reports[a]	
United Nations (A/67/5 (Vol. I))	United Kingdom
ITC (A/67/5 (Vol. III))	United Kingdom
UNU (A/67/5 (Vol. IV))	China
UNDP (A/67/5/Add.1)	South Africa
UNICEF (A/67/5/Add.2)	China
UNRWA (A/67/5/Add.3)	South Africa
UNITAR (A/67/5/Add.4)	China
UNEP (A/67/5/Add.6)	United Kingdom
UNFPA (A/67/5/Add.7)	South Africa
UN-Habitat (A/67/5/Add.8)	United Kingdom
UNODC (A/67/5/Add.9)	United Kingdom
UNOPS (A/67/5/Add.10)	South Africa
International Criminal Tribunal for the Prosecution of Persons Responsible for Genocide and Other Serious Violations of International Humanitarian Law Committed in the Territory of Rwanda and Rwandan Citizens Responsible for Genocide and Other Such Violations Committed in the Territory of Neighbouring States between 1 January and 31 December 1994 (A/67/5/Add.11)	China
International Tribunal for the Prosecution of Persons Responsible for Serious Violations of International Humanitarian Law Committed in the Territory of the Former Yugoslavia since 1991 (A/67/5/Add.12)	China
UN-Women (A/67/5/Add.13)[b]	South Africa
UNJSPF (A/67/9, annex X)	South Africa
Annual reports	
Voluntary funds administered by the United Nations High Commissioner for Refugees (A/67/5/Add.5)[c]	United Kingdom
United Nations peacekeeping operations (A/66/5 (Vol. II))[d]	China

[a] 1 January 2010-31 December 2011.
[b] Initial report covers the first year of operation, 1 January-31 December 2011.
[c] 1 January-31 December 2011.
[d] 1 July 2010-30 June 2011.

Annex II

Explanation of types of audit opinions

	Modified		
Unmodified	*Qualified*	*Adverse*	*Disclaimer*
An unmodified opinion implies that the financial statements of the auditee are prepared, in all material respects, in accordance with the applicable financial reporting framework, i.e. the United Nations system accounting standards in the case of the United Nations and its funds and programmes.	A qualified opinion implies that the auditor who, having obtained sufficient and appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements, or that the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.	An adverse opinion implies that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements based on sufficient appropriate audit evidence.	A disclaimer of opinion is issued when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion and concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. A disclaimer of opinion shall also be issued when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding his or her having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements owing to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

"Emphasis of matter" is to draw users' attention to a matter presented or disclosed in the financial report that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial report.
"Other matter" is to draw attention to any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Annex III

Status of implementation of recommendations made up to 31 December 2009

Organization	Number of recommendations	Fully implemented	Under implementation		Not implemented		Overtaken by events
			Prior to 2008-2009	During 2008-2009	Prior to 2008-2009	During 2008-2009	
United Nations	72	43	–	21	–	5	3
Peacekeeping operations[a]	52	23	11	18	–	–	–
ITC	9	3	1	3	1	1	–
UNU	17	9	–	6	–	2	–
UNDP	89	64	9	13	–	–	3
UNICEF	50	33	5	10	–	2	–
UNRWA	61	52	5	4	–	–	–
UNITAR	5	3	–	1	1	–	–
UNHCR[b]	33	8	2	19	–	4	–
UNEP	26	16	2	6	–	2	–
UNFPA	93	64	11	7	3	8	–
UN-Habitat	20	11	1	5	–	3	–
UNODC	15	5	2	3	1	3	1
UNOPS	59	47	2	9	–	–	1
UN-Women[c]	–	–	–	–	–	–	–
International Criminal Tribunal for Rwanda	22	19	–	1	–	–	2
International Tribunal for the Former Yugoslavia	10	9	–	1	–	–	–
UNJSPF	43	28	3	10	3	2	0
Total	**676**	**437**	**54**	**137**	**6**	**32**	**10**
Percentage	**100**	**65**	**8**	**20**	**1**	**5**	**1**

[a] The United Nations peacekeeping operations have an annual financial cycle ended 30 June; therefore the figures reported are for recommendations made up to 31 July 2010.

[b] UNHCR has an annual financial cycle; therefore the figures reported are for recommendations made up to 31 December 2010.

[c] UN-Women was established as from 1 January 2011; therefore, there are no recommendations prior to that date.